# Results of non-financial corporations in 2000 Q2 (1)

## 1. INTRODUCTION

The Central Balance Sheet Office Quarterly Survey (CBQ) data for the first half of 2000 show a recovery in productive activity and significant growth in employment creation and in funds generated by the corporations reporting their data to the Banco de España. The buoyancy of these corporations in the first half of the current year basically stems from the positive developments in manufacturing as a consequence of the strength of domestic demand and exports. Imports, which also grew at high rates, were strongly affected by the surge in oil prices. Indeed, this surge is one of the most worrying aspects of the current economic situation owing to its direct and indirect effects on corporations' results. At the same time, rises in interest rates have pushed up the cost of borrowing. Even so, this cost remains below the rates of return obtained, so that financial leverage is still positive, in line with Q1.

A detailed analysis of the growth in productive activity shows that, during the first half of 2000, the corporations reporting to the CBQ posted nominal GVA growth of 6.6 % on the same period of the previous year, as against 2.7 % in the first half of 1999 on the same period of 1998. Notable were the strength of manufacturing (growth of 21.2 %, compared with a –2.1 % decline in the first half of 1999) and the recovery in exports during the first two quarters of 2000, largely as a consequence of the favourable developments in the euro-area countries, which absorb a significant share of the exports of the sample corporations. Against this backdrop of expanding productive activity, personnel costs also grew notably (5.4 %, as against 1.3 % in the same period of 1999) for two reasons: first, because the corporations reporting to the CBQ increased their employment by the order of 2.3 %, despite the downsizing taking place in large firms undergoing restructuring that has been discussed in previous ar-

(1) The information in this article relates to the 748 corporations, on average, that responded to the CBQ questionnaires for 2000 Q1 and Q2. The cut-off date for the information was 15 September 2000. The reporting corporations account for some 15.1% of total activity - as measured by gross value added at factor cost - in the non-financial corporations sector.

TABLE 1

**Profit and loss account. Year-on-year performance (Growth rates of the same corporations on the same period a year earlier/ % of GVA at factor cost in the case of the net profit)**

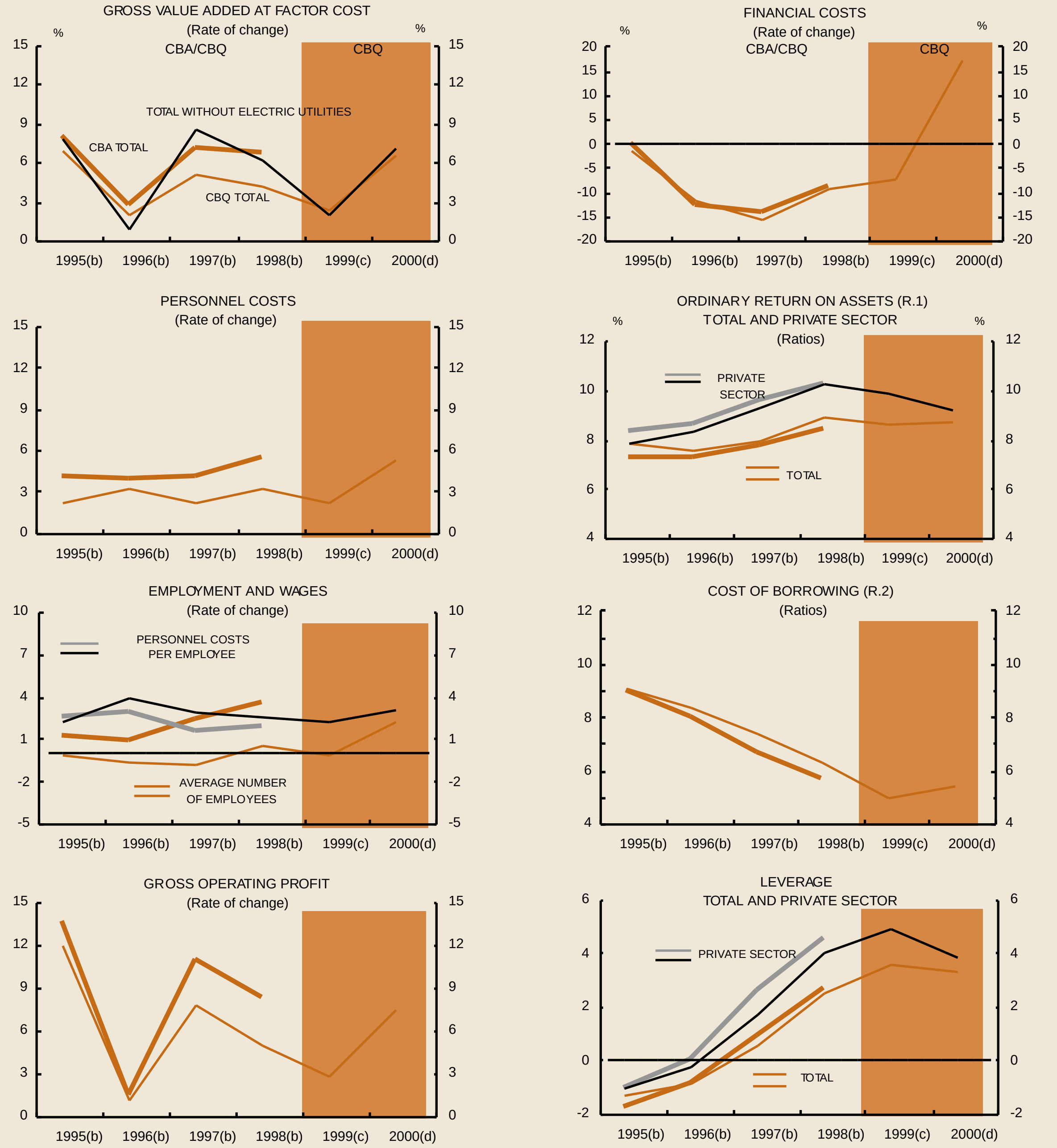
| Databases | CBA | | CBQ | | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 99 Q1-Q4/ 98 Q1-Q4 (a) | 99 Q1-Q2 (a) | 00 Q1-Q2 |
| Number of corporations/Total national coverage | 8049 / 38.9 % | 7180 / 37.4 % | 866 / 17.5 % | 894 / 18.7 % | 748 / 15.1 % |
| 1. VALUE OF OUTPUT (including subsidies) | 10.1 | 6.4 | 9.1 | 5.1 | 22.8 |
| Of which: | | | | | |
| 1. Net amount of turnover and other operating income | 10.0 | 7.0 | 10.1 | 6.4 | 23.3 |
| 2. INPUTS (including taxes) | 11.7 | 6.2 | 13.7 | 6.7 | 34.6 |
| Of which: | | | | | |
| 1. Net purchases | 12.1 | 3.5 | 16.8 | 4.9 | 46.3 |
| 2. Other operating costs | 10.8 | 11.1 | 10.3 | 11.2 | 11.5 |
| S.1. GROSS VALUE ADDED AT FACTOR COST | 7.1 | 6.7 | 2.4 | 2.7 | 6.6 |
| 3. Personnel costs | 4.0 | 5.5 | 2.1 | 1.3 | 5.4 |
| S.2. GROSS OPERATING PROFIT | 11.0 | 8.2 | 2.7 | 4.0 | 7.4 |
| 4. Financial revenue | 11.0 | 9.5 | 30.5 | 43.1 | 6.8 |
| 5. Financial costs | –13.9 | –8.6 | –7.3 | –9.6 | 17.2 |
| 6. Corporate income tax | 23.0 | 27.6 | 19.2 | 16.9 (c) | 17.7 (c) |
| S.3. FUNDS GENERATED FROM OPERATIONS | 17.2 | 9.9 | 6.5 | 8.0 | 4.9 |
| 7. Depreciation and provisions | 25.0 | 18.7 | 6.6 | 6.8 | 4.1 |
| S.4. TOTAL NET PROFIT (% of GVA at factor cost) | 14.8 | 15.4 | 20.8 | 26.6 | 27.2 |
| PROFITABILITY RATIOS | | | | | |
| R.1. Ordinary return on net assets (before taxes) (b) | 7.7 | 8.4 | 8.6 | 8.9 | 8.7 |
| R.2. Interest on borrowed funds/ interest-bearing borrowing | 6.7 | 5.7 | 5.0 | 5.1 | 5.4 |
| R.3. Ordinary return on equity (before taxes) (b) | 8.1 | 9.7 | 10.3 | 10.7 | 10.1 |
| R.4. Debt ratio | 38.9 | 39.4 | 38.6 | 38.3 | 36.2 |
| R.5. Financial levarage (before taxes)(R.1 – R.2) (b) | 0.9 | 2.7 | 3.6 | 3.8 | 3.3 |

Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.
(b) Ratios calculated according to the new methodology, as explained in the Central Balance Sheet Office's annual monograph.
(c) Adjusted for one-off transactions.

CHART 1

**Non-financial corporations reporting to the Central Balance Sheet Office** (a)




NUMBER OF CORPORATIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| CBA | 8,111 | 8,019 | 8,049 | 7,180 | | |
| CBQ | 722 | 725 | 723 | 833 | 866 | 748 |

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| CBA | 36.9 | 38.6 | 38.9 | 37.4 | | |
| CBQ | 21.5 | 20.9 | 20.6 | 19.5 | 17.5 | 15.1 |

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| CBQ | 21.5 | 20.9 | 20.6 | 19.5 | 17.5 | 15.1 |

CBA data.　　CBQ data.

Source: Banco de España.

(a) Information available to 15 September 2000 (CBA and CBQ).

(b) The 1995, 1996, 1997 and 1998 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

(c) Average of the four quarters of 1999 in relation to the same period in 1998.

(d) Average of the first two quarters of 2000 in relation to the same period in 1999.

TABLE 2.a

**Value added, employees, personnel costs and average compensation**
**Breakdown by size, ownership status and main activity of corporations**
**(Growth rates of the same corporations on the same period a year earlier)**

| | Gross value added at factor cost | | | | Employees (average for period) | | | | Personnel costs | | | | Average compensation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CBA | CBQ | | | CBA | CBQ | | | CBA | CBQ | | | CBA | CBQ | | |
| | 1998 | 99 Q1-Q4 (a) | 99 Q1-Q2 (a) | 00 Q1-Q2 (a) | 1998 | 99 Q1-Q4 (a) | 99 Q1-Q2 (a) | 00 Q1-Q2 (a) | 1998 | 99 Q1-Q4 (a) | 99 Q1-Q2 (a) | 00 Q1-Q2 (a) | 1998 | 99 Q1-Q4 (a) | 99 Q1-Q2 (a) | 00 Q1-Q2 (a) |
| **Total** | **6.7** | **2.4** | **2.7** | **6.6** | **3.6** | **–0.1** | **–0.6** | **2.3** | **5.5** | **2.1** | **1.3** | **5.4** | **1.9** | **2.3** | **1.9** | **3.1** |
| **Total, excluding electricity** | **7.8** | **2.0** | **2.4** | **7.0** | **4.0** | **0.6** | **0.2** | **3.0** | **6.0** | **2.9** | **2.2** | **6.8** | **1.9** | **2.3** | **2.0** | **3.7** |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 8.4 | — | — | — | 4.2 | — | — | — | 7.3 | — | — | — | 2.9 | — | — | — |
| Medium | 10.0 | 6.4 | 7.5 | 10.3 | 5.6 | 4.3 | 3.4 | 4.0 | 8.6 | 6.2 | 5.9 | 7.2 | 2.8 | 1.8 | 2.4 | 3.1 |
| Large | 6.2 | 2.2 | 2.5 | 6.3 | 3.2 | –0.6 | –1.0 | 2.1 | 4.9 | 1.8 | 0.9 | 5.2 | 1.7 | 2.3 | 1.9 | 3.1 |
| STATUS: | | | | | | | | | | | | | | | | |
| Public-sector | 5.1 | 1.7 | 1.3 | 8.1 | –1.4 | 0.9 | 1.3 | 0.8 | 2.1 | 5.0 | 4.7 | 6.4 | 3.5 | 4.0 | 3.4 | 5.5 |
| Private-sector | 7.0 | 2.7 | 3.1 | 6.3 | 4.8 | –0.5 | –1.3 | 2.7 | 6.3 | 1.1 | 0.1 | 5.1 | 1.5 | 1.6 | 1.4 | 2.4 |
| BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Manufacturing | 6.4 | 0.4 | –2.1 | 21.2 | 2.3 | –0.4 | –0.6 | 1.3 | 5.5 | 2.4 | 2.3 | 5.6 | 3.1 | 2.8 | 2.9 | 4.3 |
| Electricity, gas and water supply | 0.1 | 4.2 | 3.9 | 5.1 | –5.7 | –7.5 | –8.9 | –5.4 | –1.7 | –3.9 | –5.6 | –4.5 | 4.3 | 3.9 | 3.6 | 1.0 |
| Wholesale and retail trade | 14.0 | 6.8 | 11.3 | 3.4 | 8.1 | 6.4 | 5.3 | 8.5 | 9.5 | 7.7 | 7.0 | 9.9 | 1.3 | 1.2 | 1.6 | 1.3 |
| Transport, storage and communication | 5.6 | 0.2 | 1.8 | –2.7 | –0.4 | –4.6 | –4.5 | –2.0 | 3.2 | –0.2 | –1.8 | 4.7 | 3.7 | 4.7 | 2.9 | 6.8 |

Source: Banco de España.
(a) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.

ticles, and which affects the aggregate results; and second, because of growth of the order of 3.1 % in the average compensation received by employees, basically as a consequence of the application of inflation-adjustment clauses in collective agreements and other wage rises also affected by the general growth in prices.

Gross operating profit, as a result of the behaviour of the variables discussed (the growth in GVA, and to a lesser extent, in personnel costs), grew by 7.4 %, in nominal terms, in the first half of 2000, almost twice the rate of the same period a year earlier (4 %). Extending the trend of Q1, financial costs grew for the first time in seven years (at a rate of 17.2 %, compared with –9.6 % in the same period of 1999). The rises in interest rates and the greater recourse by firms to borrowing to finance investment were both responsible for this result. The ratio that reflects the cost of borrowing (R.2) rose to 5.4 % (5.1 % in the first half of 1999), a level that is nonetheless significantly below that of ordinary returns, i.e. those calculated on the basis of the corporations' productive activity. Indeed, the ordinary return on net assets (R.1) and the ordinary return on equity (R.3), calculated in both cases before taxes, amounted to 8.7 % and 10.1 %, respectively, so that the financial leverage (R5 = R1 – R2) was clearly positive. This shows that while the cost of borrowing has grown the high levels of returns have been sustained.

The foregoing, in short, paints a very positive picture for Spanish firms in terms of the growth in their activity, employment and profitability, although inflation, linked basically to oil import prices, is a cloud on the horizon. The growth in these variables in the coming months and their influence on wages and operating margins may have a negative effect on the competitiveness of Spanish firms and on their capacity to create employment.

## 2. ACTIVITY

During the first six months of 2000, the activity (GVA) of the CBQ non-financial corporations grew by 6.6 %, in nominal terms (see Table 1 and Chart 1). This growth, which was significantly higher than in the same period of 1999, confirms the strength of output growth. As indicated above, output growth was buoyed by the high rates of growth in manufacturing, which has recovered from the contraction in GVA in late 1998 and in the first half of 1999. The growth in manufacturing output was in response to the increases in domestic demand and to the recovery in exports in the latest period. The clear signs of expansion in international markets, already discernible in the results for 2000 Q1, were confirmed in Q2 by the positive export performance. Table 3 shows that the foreign sales of the reporting corporations, as a proportion of their turnover, rose from 11.2 % in 1999 to 13.5 % in the first half of 2000. However, this increase may be threatened if the effects of the oil-price rises end up significantly denting the strength of the European economies.

As indicated in the article on the results for 2000 Q1, the rise in oil prices has had an initial effect on the corporations manufacturing refined petroleum products, by making their main input (crude oil) drastically more expensive. However, this has not prevented both GVA and gross operating profits from growing notably, in nominal terms, since the high cost of inputs has been passed through to output. These very high rates of growth are clearly reflected in the aggregate of «all corporations», since as can be seen in Table 1, turnover and net purchases grew by 23.3 % and 46.3 % respectively during 2000 Q1. Table 2.a completes the analysis of growth in activity, giving a breakdown by ownership status, industry and size of the corporations. As regards industries, manufacturing – assisted by the expansion of exports in 2000 Q2 – gave the largest boost to activity (21.2 %, compared with –2.1 % in the same period a year earlier). In addition to the above-mentioned positive growth in the manufacture of refined petroleum products, other manufacturing firms also increased their activity, although growth in the manufacture of food products and of transport equipment was

TABLE 2.b

**Employment and personnel costs**
**Detail according to changes in staff levels**

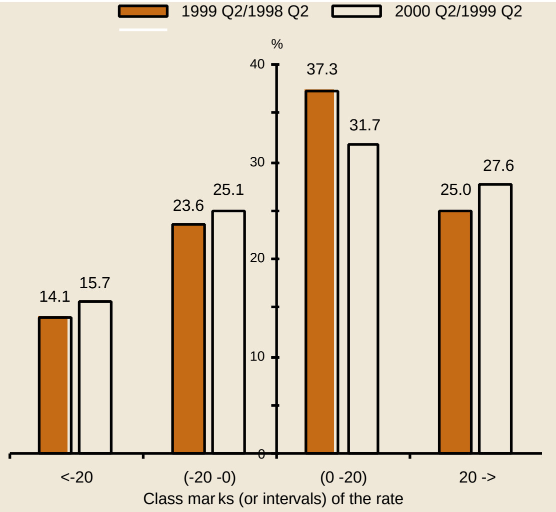
| | Total CBQ firms 2000 Q1-Q2 | Corporations increasing (or not changing) staff levels | Corporations reducing staff levels |
|---|---|---|---|
| **Number of corporations** | **748** | **475** | **273** |
| **Personnel costs** | | | |
| Initial situation 1999 Q1-Q2 (EUR millions) | 8,366.9 | 4,349.4 | 4,017.5 |
| Rate 00 Q1-Q2/99 Q1-Q2 | 5.4 | 13.8 | –3.3 |
| **Average compensation** | | | |
| Initial situation 1999 Q1-Q2 (EUR) | 17,826 | 16,049 | 20,188 |
| Rate 00 Q1-Q2/99 Q1-Q2 | 3.1 | 3.6 | 4.8 |
| **Number of employees** | | | |
| Initial situation 1999 Q1-Q2 (thousands) | 470 | 271 | 199 |
| Rate 00 Q1-Q2/99 Q1-Q2 | 2.3 | 9.9 | –7.7 |
| ***Permanent*** | | | |
| *Initial situation 1999 Q1-Q2 (thousands)* | *401* | *214* | *187* |
| *Rate 00 Q1-Q2/99 Q1-Q2* | *0.4* | *6.9* | *–6.6* |
| ***Non permanent*** | | | |
| *Initial situation 1999 Q1-Q2 (thousands)* | *69* | *57* | *12* |
| *Rate 00 Q1-Q2/99 Q1-Q2* | *13.1* | *21.0* | *–25.6* |

Source: Banco de España.

more muted. Box 1 reports in detail the developments in the various different branches of manufacturing. As for the other industries, their behaviour was uneven. On the one hand, GVA in electricity, gas and water supply grew in the first half of the year at a brisk rate (5.1 %), basically as a result of the increase in the demand for electricity (on industry sources, up 7.1 %), which offset the effects of the reductions in electricity prices. On the other hand, GVA in transport and communication continued to decline, at a rate of –2.7 % in the first half of 2000. This appears to be the result of the rise in energy-input prices, combined with the falls in prices and margins of the corporations making up the aggregate, caused by increasing competition. Finally, GVA in wholesale and retail trade, after a long period of strong growth in step with consumption, grew at a nominal rate of only 3.4 % during the first six months of 2000. This performance was affected by that of the corporations selling fuels, whose input is refined petroleum. Their higher costs have not been passed on to the final consumer, leading to a drastic reduction in their margins and a very negative GVA outcome. If the corporations selling fuels were removed

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost (99 Q2/98 Q2 and 00 Q2/99 Q2)**




Source: Banco de España.

from the sample, its GVA would have grown by 15 % in the first half of 2000.

According to Chart 2, which shows the distribution of firms according to their GVA growth, the expansion in productive activity was across the board. The percentage of firms in which value added grew was almost 60 %, although in the same period of the previous year this percentage was higher. There was, however, a slight shift in numbers towards the highest rates of GVA growth, i.e. above 20 %.

## 3. EMPLOYMENT AND PERSONNEL COSTS

The personnel costs of the CBQ sample corporations grew by 5.4 % in the first half of 2000, a much higher rate than in the first half of 1999 (1.3 %). To understand the reasons for this it is necessary to analyse the changes in employment and in average compensation separately. A number of factors, including notably the length of the present cyclical expansion, the strength of the generation of funds by productive activity, which has boosted the financing of corporations from retained earnings, and favourable expectations, have given rise to significant employment creation. And this is even the case for the CBQ reporting firms, which had until now, for the oft-explained reasons relating to sample bias, posted negative growth rates. Thus, in the first half of 2000 average employment grew by 2.3 %, reflecting the increases in employment in the majority of the sample corporations. That said, the exceptions already discussed in previous articles continue to apply, caused by the ongoing staff adjustments in certain large firms, whose relative weight in the sample as a whole pulls the above-mentioned total downwards. The increase was much larger in the case of temporary employment (13.1 %) than in that of permanent employment (0.4 %). As regards industries, the aforementioned restructuring is concentrated in electricity, gas and water supply and in transport and communication (both undergoing reorganisation and liberalisation), where there continues to be a net destruction of employment. This phenomenon is expected to continue in coming quarters. Table 2.a shows that if electricity, gas and water supply is excluded from the aggregate of all corporations, the growth rate of the latter rises to 3 %. Wholesale and retail trade posted a more positive performance, being the most dynamic industry in terms of job creation (its employment grew by 8.5 %). Finally the return to positive rates of job growth in manufacturing should be noted. In line with the expansion of their productive activity, manufacturing corporations increased their staff levels by 1.3 % in the first half of 2000.

Meanwhile, average compensation (approximated in the CBQ by calculating personnel costs per worker) (2), grew at a rate of 3.1 % in the first two quarters of 2000, 1.2 percentage points up on the rate of the same period a year earlier. This increase, albeit notable, gives no indication of the significant growth in average compensation in certain sectors. The growth of personnel costs per worker in the manufacturing sector (up 4.3 %) during the period discussed should be noted, both due to the weight of this sector in the sample and in the economy, and because this behaviour extended to all manufacturing industries, except that

(2) This approximation is improved when the Central Balance Sheet Office Annual Survey (CBA) data become available. The more detailed information in the CBA enables the total compensation of wage-earners to be calculated, eliminating the effects of accruals, such as transfers to and applications of provisions for staff restructuring.

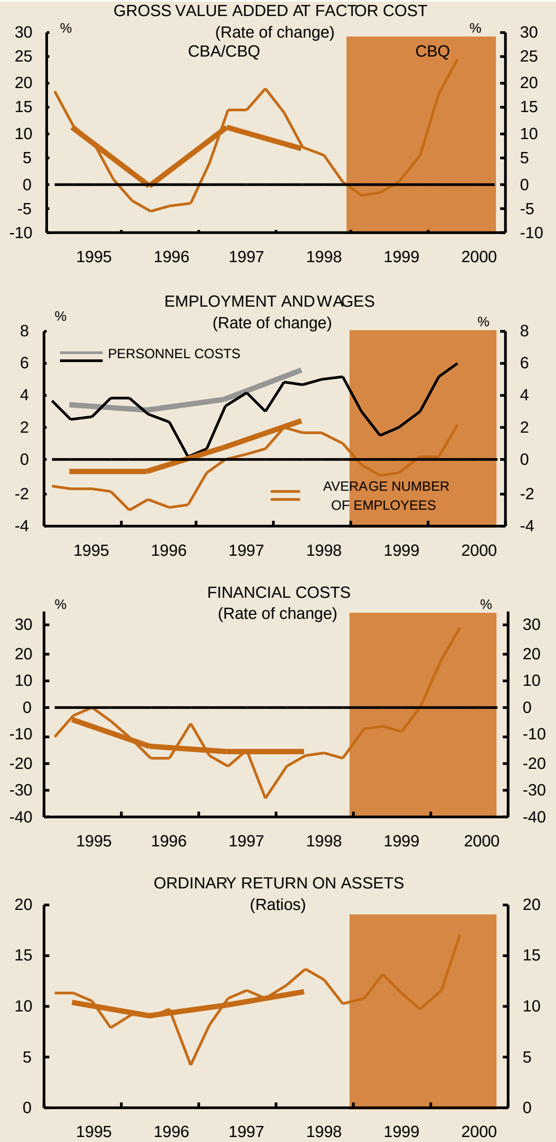
BOX 1

## Analysis of the manufacturing sector

As is customary in CBQ articles, this box studies developments in the manufacturing sector in view of its interest from the standpoint of economic analysis and of its representativeness in the sample of corporations reporting to the CBQ survey. During the first half of 2000, manufacturing output increased strongly, becoming the main driving force of productive activity. GVA in manufacturing grew by 21.2% in the first six months of 2000, compared with a negative rate of –2.1% in the same period a year earlier, when the sector was still feeling the impact of the international crisis. This behaviour, observable across the board in all industries, is attributable to two salient factors. Firstly, the pick-up in the international economy, especially in Spain's immediate sphere, which has entailed a re-expansion of exports. That bears particularly on manufacturing given the significance of its activity abroad. Secondly, the increase in international crude oil prices has not affected the value added of the manufacture of refined petroleum products; rather, this industry has posted a strong nominal increase given that it has been able to pass through the higher prices of its inputs. In addition to the manufacture of refined petroleum products, the remaining manufacturing industries saw their output grow. Of note was the strong expansion of activity in the manufacture of chemicals and chemical products, in the manufacture of glass, ceramic and metal products, and in other manufacturing industries. Growth was slower in the manufacture of transport equipment (1.8%), no doubt affected by the decline in the pace of new passenger car registrations in recent months. The clear rise in activity has translated, in employment terms, into a recovery in the generation of new jobs, with an associated rate of 1.3%. Average compensation per employee grew by 4.3%, appreciably above the general growth of prices.

Further to the boom in productive activity, the gross operating profit grew most substantially (41.4%), confirming the recovery in the sector. As to financial costs, these grew – as was the case for the whole of the sample – during the first half of the year at a rate of 23.5%. Funds generated from operations duly grew at a rate of 35.7% in the first half of 2000 compared with the same period a year earlier. In keeping with this scenario, the profitability ratios stood at very high levels (14.3% in the case of the return on net assets), over two points above those obtained in the first half of the previous year. Combined with a more contained increase in the cost of borrowing (which increased by two-tenths of a point to 5% for these corporations), this took leverage to a figure of 9.4, which summarises better than any other ratio the current healthy state of this aggregate. Bearing in mind the caveats arising from the inflationary pressures which have begun to emerge, the prospects over the coming quarters for manufacturing point to a sound and stable firming of output growth. That would allow job creation to be stepped up, provided that wage restraint is maintained and that advantage is not taken of demand conditions to introduce increases in margins which, in the long run, may impair competitiveness.

**Performance of the manufacturing corporations reporting to the Central Balance Sheet Office** (a)




NUMBER OF CORPORATIONS

| | | | | |
|---|---|---|---|---|
| CBA | 3,258 | 3,225 | 3,347 | 2,914 |
| CBQ | [illegible] | | | |

% OF GDP OF THE MANUFACTURING SECTOR

| | | | | |
|---|---|---|---|---|
| CBA | 39.3 | 38.2 | 38.5 | 31.7 |
| CBQ | [illegible] | | | |

CBA data.
CBQ data.

Source: Banco de España.
(a) Information available to 15 September 2000 (CBA and CBQ).The CBQ data are growth rates on the same quarter of the previous year.

TABLE 3

**Purchases and turnover of corporations reporting data on purchasing sources and sales destinations**
**Structure**

| | CBA | CBQ | |
|---|---|---|---|
| | 1998 | 99 Q1-Q4/98 Q1-Q4 (a) | 00 Q1-Q2/99 Q1-Q2 (a) |
| **Total corporations** | **7,180** | **866** | **748** |
| Corporations reporting source/destination | 7,180 | 814 | 716 |
| | % | % | % |
| **Net purchases** | **100.0** | **100.0** | **100.0** |
| SOURCE OF PURCHASES: | | | |
| Spain | 65.5 | 74.6 | 74.9 |
| Total abroad | 34.5 | 25.4 | 25.1 |
| *EU countries* | *23.9* | *16.5* | *13.6* |
| *Third countries* | *10.6* | *8.9* | *11.5* |
| **Net turnover** | **100.0** | **100.0** | **100.0** |
| SALES DESTINATIONS: | | | |
| Spain | 80.0 | 88.8 | 86.5 |
| Total abroad | 20.0 | 11.2 | 13.5 |
| *EU countries* | *15.0* | *7.4* | *8.0* |
| *Third countries* | *5.0* | *3.8* | *5.5* |

Source: Banco de España.
(a) All the data in this column have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of corporations.

of production of electrical and electronic materials and equipment (precisely because it was here that employment increased most). This strong increase is not fully transmitted to the sample total, due to the moderation of average compensation in the distributive trade (in this case also, due to the low cost of newly hired workers). The application of inflation-adjustment clauses in collective agreements, triggered by the actual rate of inflation, undoubtedly had a strong impact on the overall growth of average compensation.

From a different point of view, specifically that of Table 4, in which no account is taken of the relative size of each corporation, it can be seen that in 2000 Q2, in comparison with the same period a year earlier, the percentage of firms with rising personnel costs increased significantly, basically due to the increase in the number of corporations creating employment. In the period discussed, personnel costs rose or held constant in almost 78 % of the corporations, nine percentage points more than in 1999. Finally, the increase in inflation has meant that the percentage of firms increasing their average compensation at a higher rate than inflation fell, although that has not prevented those corporations increasing their average wages by at least the rate of inflation from continuing to be in the majority.

Table 2.b confirms what has been said so far regarding employment and compensation. The 475 corporations that created employment did so at a significant rate, both in the case of permanent employment (6.9 %) and especially in that of temporary employment (which grew by 21 %). The

TABLE 4

**Personnel costs, employees and average compensation**
**% of corporations in specific situations**

| | CBA | | CBQ | | | |
|---|---|---|---|---|---|---|
| | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) | 99 Q2 | 00 Q2 |
| **Number of corporations** | **8,049** | **7,180** | **833** | **866** | **874** | **632** |
| **Personnel costs** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Falling | 24.0 | 21.2 | 27.8 | 30.3 | 31.6 | 22.4 |
| Constant or rising | 76.0 | 78.8 | 72.2 | 69.7 | 68.4 | 77.6 |
| **Average number of employees** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Falling | 28.3 | 25.7 | 40.3 | 39.4 | 40.9 | 35.4 |
| Constant or rising | 71.7 | 74.3 | 59.7 | 60.6 | 59.1 | 64.6 |
| **Average compensation (relative to inflation)** (b) | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Lower growth | 44.0 | 40.5 | 42.6 | 49.1 | 47.0 | 48.2 |
| Higher or same growth | 56.0 | 59.5 | 57.4 | 51.0 | 53.0 | 51.8 |

Source: Banco de España.
(a) Arithmetic mean of the relevant quarters for each column.
(b) Twelve-month percentage change in the CPI.

creation of employment itself has always made this aggregate of corporations show more moderate growth in their average compensation, as also on this occasion, although the rate of growth was higher than in previous quarters (their average compensation grew by 3.6 %). By contrast, the aggregate of 273 corporations which destroyed employment (at a rate of –7.7 %) posted a somewhat higher rate of growth of average compensation, namely 4.8 %. As already mentioned, this latter rate would be significantly higher if information were available on the costs associated with dismissal, for which provisions had previously been set aside, and which are not therefore reflected in personnel costs in 2000 Q2.

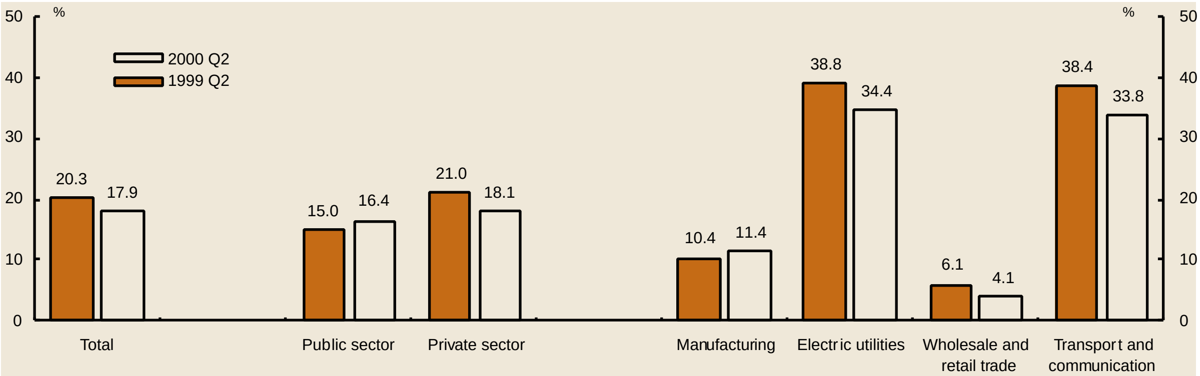
## 4. PROFITS, MARGINS AND RATES OF RETURN

Gross operating profit rose in nominal terms in the first six months of the year (by 7.4 %, as against 4 % in the same period of 1999) because activity grew at a higher rate than personnel costs. With regard to industries, the growth in gross operating profit in manufacturing was notable. In line with its activity, this sector posted the highest growth rate (41.4 %), as a consequence of the favourable effect of the pick-up in exports (Box 1 studies the results in manufacturing in greater detail). The comments made when analysing the productive activity of the other sectors are also applicable here. In terms of size, growth was recorded across all the aggregates, although it was particularly high in the case of medium-sized corporations, where the rate was around 14.1 % in the first half of 2000. Finally, the distinction between public and private-sector corporations shows the excellent performance of the former, owing to the favourable situation of certain businesses, and especially air transport. In any event, it should be taken into account that the privatisation programme has been emptying the public-sector aggregate of content, so that some rates of growth that are rather volatile since they now relate to a very small number of corporations should be treated with some caution.

Financial costs, as in Q1, continued to accelerate, to reach a rate of 17.2 % in the first half as a whole. This growth occurred in the wake of the sharp falls recorded

CHART 3

**Business margins** (a)




Source: Banco de España.
(a) Gross operating profit/net turnover and other operating income.

quarter after quarter in recent years, which took financial costs down to historic lows. Now, the rise in interest rates and the increase in borrowing as a means of corporate financing have meant that financial costs are again significant, although they still represent a low proportion of the cost structures of the corporations (3 % of total production costs, when in 1995 their weight was practically twice as high). However, these two effects (interest rates and borrowing) should be studied separately, as follows:

| | 00 H1/00 H1 |
|---|---|
| **Change in financial costs** | **17.2 %** |
| *A Interest on borrowed funds (1+2)* | *18.8 %* |
| 1 Due to the cost (interest rate) | +8.4 % |
| 2 Due to the amount of interest-bearing debt | +10.4 % |
| *B. Commissions and cash discounts* | *–1.6 %* |

The data show that the rise in financial costs has been caused by both the rises in interest rates in recent months and by the increase in borrowing (which is not apparent in the debt ratio in Table 1, owing to the large increase in the own funds of the corporations, which form part of the denominator of the ratio). The increase in the recourse to sources of financing on which interest is payable should be noted, insofar as it confirms the climate of confidence in the corporate sector, which is being translated into new investment projects. The execution of these projects is favoured by the availability of borrowed funds at rates which, despite the recent rises, are still low (the ratio R.2 stood at 5.4 % in the first half of 2000) compared to the rates of return that can be obtained. The ordinary returns (both on net assets and equity) remained at very high levels, similar to those of the previous year (that on net assets, R.1, stood at 8.7 %, and that on equity, R.2, at 10.1 %). Among the industries (see Table 5), the manufacturing sector stood out once more, with an ordinary return on net assets of 14.3 %. The other sectors also sustained high returns, and this together with the aforementioned continued low level of the cost of borrowing enabled the leverage ratio (R5 = R.1 – R.2 = 3.3) to remain clearly positive for another quarter, confirming the excellent state of business as a whole.

Lastly, Table 6 allows conclusions to be drawn as to whether this latter observation may be extended to most corporations, offering as it does the distribution of the sample according to the rate of return obtained, irrespective of size or status. Although there has been a one-point increase in companies showing losses on their ordinary activities in 2000 Q2 (21.2 % of corporations had negative returns), a slight shift towards the higher-return segments can be seen at the remaining companies. In any

TABLE 5

**Gross operating profit, funds generated, ordinary return on assets and leverage**
**Breakdown by size, ownership status and main activity of corporations**
**(Growth rates of the same corporations on the same period a year earlier)**

| | Gross operating profit | | | | Funds generated | | | | Ordinary return on assets (R.1) (a) | | | | Leverage (a) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CBA | CBQ | | | CBA | CBQ | | | CBA | CBQ | | | CBA | CBQ | | |
| | 1998 | 99 Q1-Q4 (b) | 99 Q1-Q2 (b) | 00 Q1-Q2 (b) | 1998 | 99 Q1-Q4 (b) | 99 Q1-Q2 (b) | 00 Q1-Q2 (b) | 1998 | 99 Q1-Q4 (b) | 99 Q1-Q2 (b) | 00 Q1-Q2 (b) | 1998 | 99 Q1-Q4 (b) | 99 Q1-Q2 (b) | 00 Q1-Q2 (b) |
| **Total** | **8.2** | **2.7** | **4.0** | **7.4** | **9.9** | **6.5** | **8.0** | **4.9** | **8.4** | **8.6** | **8.9** | **8.7** | **2.7** | **3.6** | **3.8** | **3.3** |
| **Total, excluding electricity** | **10.4** | **1.1** | **2.7** | **7.3** | **11.2** | **8.4** | **9.8** | **6.1** | **8.6** | **8.8** | **9.2** | **9.7** | **2.7** | **3.9** | **4.1** | **4.3** |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 10.4 | — | — | — | 14.5 | — | — | — | 10.3 | — | — | — | 3.2 | — | — | — |
| Medium | 12.0 | 6.5 | 9.6 | 14.1 | 13.0 | 13.7 | 11.8 | 15.0 | 10.9 | 10.4 | 11.5 | 13.9 | 4.9 | 5.9 | 6.9 | 8.9 |
| Large | 7.7 | 2.5 | 3.7 | 7.1 | 9.5 | 6.3 | 7.9 | 4.3 | 8.1 | 8.5 | 8.8 | 8.5 | 2.4 | 3.6 | 3.7 | 3.1 |
| STATUS: | | | | | | | | | | | | | | | | |
| Public-sector | 18.2 | –4.9 | –6.1 | 11.0 | 10.2 | 8.6 | 14.1 | 2.8 | 0.8 | 3.4 | 3.7 | 5.9 | –4.7 | –1.8 | –1.5 | 0.6 |
| Private-sector | 7.6 | 3.7 | 5.1 | 7.0 | 9.9 | 6.5 | 6.9 | 5.6 | 10.3 | 9.9 | 10.3 | 9.2 | 4.6 | 4.9 | 5.3 | 3.9 |
| BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Manufacturing | 7.6 | –1.8 | –7.3 | 41.4 | 9.5 | 1.6 | –0.6 | 35.7 | 11.3 | 11.3 | 12.0 | 14.3 | 5.4 | 6.5 | 7.2 | 9.4 |
| Electricity, gas and water supply | 0.7 | 6.8 | 7.0 | 7.9 | 5.2 | 2.5 | 4.1 | 2.2 | 7.6 | 8.1 | 8.3 | 7.4 | 2.5 | 3.2 | 3.4 | 2.0 |
| Wholesale and retail trade | 20.8 | 6.6 | 18.2 | –5.6 | 19.6 | 10.8 | 21.7 | –4.0 | 11.7 | 10.8 | 11.2 | 7.9 | 6.1 | 5.9 | 6.3 | 3.3 |
| Transport, storage and communication | 7.6 | 0.5 | 4.3 | –6.9 | 10.4 | 6.2 | 2.2 | –2.2 | 7.1 | 6.8 | 6.6 | 7.3 | 0.8 | 1.7 | 1.1 | 1.4 |

Source: Banco de España.
(a) Ratios calculated according to the new methodology, as explained in the Central Balance Sheet Office's annual monograph.
(b) All the data in theses columns have been calculated as the arithmetic mean of the quarterly data.

event, the observation that can best summarise the excellent current situation of Spanish non-financial corporations is the fact that 57.4 % of those included in the sample obtained a pre-tax ordinary return on equity (R.3) of over 10 %.

In sum, the CBQ data available for the first half of 2000 reveal, in keeping with and as a complement to those drawn from alternative sources, that corporate activity remains at the peak of the cycle, supported by the strength of domestic demand and by the recovery in exports. That has led to an increase in employment (one unprecedented in the CBQ series) and in funds generated and, consequently, to improved returns enabling the greater costs of financing to be absorbed. In order that the growth potential of Spanish corporations may continue to be realised, it is necessary that the direct and indirect adverse effects for their profit and loss accounts arising from crude oil price rises should not be excessively prolonged. It is particularly important that wage restraint should not be interrupted and nor should it be sought to sustain business margins through price rises in an attempt (a vain one, as far as the whole economy is concerned) to elude the effect of dearer imported energy. Adapting to the new circumstances would be a good basis

TABLE 6

**Structure of reporting corporations' ordinary returns on net assets and on equity**

| | CBQ | | | |
|---|---|---|---|---|
| | Ordinary return on assets (R.1) | | Ordinary return on equity (R.3) | |
| | 99 Q2 | 00 Q2 | 99 Q2 | 00 Q2 |
| **Total corporations** | **100.0** | **100.0** | **100.0** | **100.0** |
| R ≤ 0 % | 17.1 | 17.5 | 19.9 | 21.2 |
| 0 % < R ≤ 5 % | 15.5 | 14.0 | 12.6 | 11.3 |
| 5 % < R ≤ 10 % | 15.9 | 14.7 | 10.5 | 10.1 |
| 10 % < R ≤ 15 % | 12.3 | 15.4 | 10.2 | 11.4 |
| 15 % < R | 39.2 | 38.4 | 46.8 | 46.0 |
| **Number of corporations** | **874** | **632** | **874** | **632** |
| MEMORANDUM ITEM: | | | | |
| Average return | 9.2 | 9.1 | 11.2 | 10.6 |

Source: Banco de España.

for, inter alia, narrowing the inflation differential with Spain's European partners, increasing competitiveness and reducing unemployment.

21.9.2000.